

might also have an effect on demand for dependent-care for the elderly, but that relationship is less clear.

Maternal Employment. If present trends continue, the number of young children reared by two employed parents or by a single employed parent, rather than by two parents only one of whom works outside the home, will increase during the 1980s. This increase will reflect the combined effects of three trends: the growth in the population of young children; the increasing proportion of young children living in single-parent households; and the increasing rate of labor force participation of women with children.^{9/} Projections of labor-force participation, however, are dependent on such factors as growth in overall employment and on the availability of child care.

Labor force participation grew rapidly during the 1970s among mothers with children below the age of six, and this growth is projected to continue--albeit at a slower rate--during the 1980s (see Table 3). The labor force participation rate is substantially higher among mothers with no husband present, but it has been growing more rapidly among mothers with husbands present. By 1990, well over half of all mothers of children under age six are projected to be in the labor force--55 percent of those with husbands present, and 63 percent of those with no husband in the household.

9. Mothers rearing children alone are both more likely to be in the labor force and more likely to be employed full-time than are married mothers who live with their husbands, but employment rates for the latter group have also increased markedly since 1970.

TABLE 3. RATES OF LABOR FORCE PARTICIPATION OF MOTHERS, BY AGE OF YOUNGEST CHILD AND HOUSEHOLD TYPE: 1970, 1980, AND PROJECTIONS FOR 1990 (Rates in percentages)

	Actual		Projected
	1970	1980	1990
Households With Children Under Age 6			
Married Mothers, Husband Present	30.3	45.1	55.3
Other Ever-Married Mothers ^{a/}	50.7	59.3	63.4
Households With Children Age 6 Through 17 (none younger)			
Married Mothers, Husband Present	49.2	61.7	70.1
Other Ever-Married Mothers ^{a/}	67.3	74.2	73.8

SOURCES: Rates for 1970 are from Bureau of Labor Statistics, Marital and Family Characteristics of Workers, March 1970, Special Labor Force Report 130, 1971, Table F. Rates for 1980 are from Bureau of Labor Statistics, News, 81-522, November 15, 1982, Table 2. Projections for 1990 are from Ralph Smith, "The Movement of Women into the Labor Force," in Ralph Smith, ed., The Subtle Revolution (The Urban Institute, 1979).

- a. Numbers exclude never-married women with children. Data on such women has been available only since 1976, and projections of their labor force participation in 1990 are unavailable. The limited data available, however, indicate that the labor force participation rate of never-married mothers is currently similar to that of married mothers with husbands present. Moreover, the data suggest that their labor force participation may be growing slowly. In 1976, about 42 percent of never-married women with children were in the labor force; this had grown to 44 percent in 1980 and to 45 percent in 1982. In 1976, about 54 percent of never-married women with children age 6-17 were in the labor force; this had grown to 68 percent in 1980 but had fallen to 64 percent in 1982. Bureau of Labor Statistics (BLS), Marital and Family Characteristics of the Labor Force in March 1976, Special Labor Force Report 206, Table 2; BLS, News, 81-522, November 15, 1981, Table 2; and BLS, Division of Employment and Unemployment Analysis, unpublished tabulations of the employment status of women in March 1981 and March 1982.

Among mothers with children between 6 and 17 (but none younger), labor force participation is higher yet.^{10/} Again, labor force participation is higher among mothers with no husband present but is growing more rapidly among those with husbands in the household (see Table 3). In 1990, nearly three-fourths of mothers of children age 6 through 17 are expected to be in the labor force--70 percent of those with husbands in the household, and 74 percent of those with no husband present.^{11/}

Such an increase in the labor force participation of mothers, coupled with the growth in the population of children under 6, would sharply increase the number of very young children with both parents--or, in the case of one-parent households, the only parent--in the labor force. The number of children under age 6 with both parents in the household, but with a mother in the labor force would increase by nearly 2.5 million--a 36 percent rise between 1980 and 1990 (see Table 4). The number of very young children in mother-only households with mothers in the labor force would increase by 1 million, or 57 percent.

Employment of Potential Caretakers of the Dependent Elderly. The continuing increase in the labor force participation of women--particularly married women--might also reduce the availability of family members to

10. The 6-through-9 age group discussed earlier is not separated here from the entire 6-through-17 age group because of a lack of relevant data.

11. Note that these projections assume no further growth in the labor-force participation rate of mothers with children aged 6 through 17 and with no husband present. Never-married women with children are excluded from this table. See footnote 'a' to Table 3.

TABLE 4. NUMBER AND PERCENT OF CHILDREN UNDER AGE 6, BY NUMBER OF PARENTS IN THE HOUSEHOLD AND LABOR-FORCE STATUS OF MOTHER, 1980 AND PROJECTIONS FOR 1990 (Numbers in thousands).

	1980	1990	Change	
			Number	Percent
Children with Two Parents, Mother Not in Labor Force	8,435	7,594	-841	-10
Children with Mother Only, Not in Labor Force	1,219	1,609	390	32
Children with Two Parents, Mother in Labor Force	6,930	9,394	2,464	36
Children with Mother Only, in Labor Force	1,777	2,786	1,009	57
Other ^{a/}	<u>1,268</u>	<u>1,614</u>	<u>346</u>	<u>27</u>
Total Children	19,629	22,997	3,368	17

SOURCE: Tables 2 and 3.

- a. This category includes children living with their fathers only as well as those living with neither parent.

care for dependent elderly individuals. Increases in the proportion of families with two earners results in less time for activities such as providing help to relatives. Moreover, because the role of caring for relatives has traditionally been played by women, increases in their labor force participation are particularly important. On the other hand, the children of dependent old-elderly individuals are in some instances old enough themselves to be out of the labor force.

FACTORS BEARING ON FEDERAL SUPPORT FOR DEPENDENT-CARE SERVICES

The relevance of increased demand for dependent-care services to federal support of those services (through both direct expenditures and tax provisions) will depend on a variety of factors, including:

- o The economic circumstances of young children and the dependent elderly;
- o The extent to which dependent individuals are concentrated in certain jurisdictions; and
- o Changes in the supply of relevant services, in the absence of further federal intervention.

The Economic Circumstances of Young Children and the Dependent Elderly

Changes in the economic circumstances of young children and the dependent elderly will be a critical determinant of the importance of federal support for dependent-care services.

The Economic Circumstances of Young Children. The number of young children living in poverty has increased in recent years and is likely to grow further by 1990. Moreover, the number of young children in single-parent families living in poverty is especially likely to increase.

Projections of the poverty rate among children hinge on two factors: the number of children living in single-parent (generally, mother-only) households, and the condition of the economy. The poverty rate among children in single-parent families has been quite stable over the past decade,

with only relatively small fluctuations accompanying economic upturns and downturns. Between 50 and 53 percent of children under 18 in female-headed households, and between 61 and 66 percent of children under 6 in such households, lived in poverty in each year from 1971 through 1981. In contrast, the poverty rate among children in male-headed households varied substantially with the condition of the economy, increasing in the recession years of 1971, 1975, 1980, and especially 1981.

Accordingly, over the rest of this decade, two contrary trends will affect the incidence of poverty among young children. The continued increase in the proportion of children living in mother-only homes, coupled with the growing total number of young children, will act to increase the number of young children living in poverty. On the other hand, improvement in the economy may reduce the proportion (but not necessarily the number) of young children in poverty, primarily by lowering the poverty rate in male-headed households.

Among children under six, the combined effect of these trends is likely to be a sizable increase in the number in poverty--and perhaps a smaller increase in the proportion living in poverty--unless improvement in the economy is substantially more rapid than is now anticipated. For example, if the poverty rate among children under six in each household type in 1990 was equal to the corresponding 1979 (pre-recession) rate, the number of children under six living in poverty would increase by nearly 1 million between 1980 and 1990 (see Table 5). Twenty-seven percent of the total

TABLE 5. NUMBER AND PERCENT OF CHILDREN UNDER AGE 6 IN POVERTY IN 1980 AND PROJECTIONS FOR 1990 BY AGE AND HOUSEHOLD TYPE, UNDER ALTERNATIVE ASSUMPTIONS ABOUT POVERTY RATES (Numbers in thousands; rates in percents)

	1980		1990		1980 to 1990		
	Number in Poverty	Percent in Poverty	Number in Poverty	Percent in Poverty	Total Additional Children	Additional Children in Poverty	Additional Poor as Percent of Total Additional
1990 Poverty Rates Equal to 1979 Rates^{a/}							
All House- holds	3,950	20	4,918	21	3,533	968	27
Female- headed	1,953	65	2,711	62	1,399	758	54
Male- headed	1,997	12	2,207	12	2,135	210	10
1990 Poverty Rates Equal to 1981 Rates^{b/}							
All House- holds	3,950	20	5,885	25	3,533	1,935	55
Female- headed	1,953	65	2,896	66	1,399	943	67
Male- headed	1,997	12	2,989	16	2,135	992	46

SOURCE: Current Population Survey, Series P-60 publications and unpublished tabulations; and Tables 1 and 2 of this report.

- a. 1990 poverty rates for each household type (male- and female-headed) equal to corresponding 1979 rates, to reflect the most recent prerecession period. Overall poverty rate in 1990 does not equal 1979 rate because of the increasing proportion of children in female-headed households.
- b. 1990 poverty rates for each household type (male- and female-headed) equal to corresponding 1981 rates, reflecting some of the impact of the current recession. (The peak rate in this recession is likely to be higher than the 1981 rate; see footnote 12.) Overall poverty rate in 1990 does not equal 1981 rate because of the increasing proportion of children in female-headed households.

growth in the under-six population would be accounted for by the increased number of very young children in poverty. (More than half of the additional very young children living in female-headed households, but only 10 percent of the growth in male-headed households, would be poor). In this case, the overall poverty rate among children under six would increase slightly over the decade, from 20 to 21 percent. (Even though the poverty rate would decrease in each household type, the increase in the proportion of children living in single-parent households would more than offset that decrease.)^{12/}

In contrast, if poverty rates among children under age six in different types of households in 1990 equalled the corresponding rates in 1981, the growth in the number of very young children living in poverty would be nearly twice as great.^{13/} The number of children under age 6 living in poverty would increase by nearly 2 million from 1980 to 1990 and would account for 55 percent of the total growth in the under-six population (see Table 5). Fully two-thirds of the number of additional very young children in female-headed households would be poor, and the overall poverty rate among children under age six would climb from 20 percent to 25 percent.

12. The decline in the poverty rate in male-headed households does not appear in Table 5 because of rounding.

13. This would most likely constitute a modest improvement from the peak poverty rates of the most recent recession, since poverty rates among young children are likely to be significantly higher in 1982 than in 1981. Reductions enacted since 1980 in real benefits under Aid to Families With Dependent Children were not effective for the most part until October 1981 or later. Those benefit reductions accordingly had little impact on the poverty rate among young children in 1981, but can be expected to have an appreciable effect on the 1982 rate.

The household incomes of young children above the poverty line are also relevant to the federal role in supporting child-care services. For example, the household incomes of young children with two working parents vary greatly, and the Congress might choose to target its support on the subset of those families with modest combined incomes. Unfortunately, however, projections of the household incomes of non-poor families with children in 1990 are unavailable.

The Economic Circumstances of the Old Elderly. Although the poverty rate among the elderly has declined substantially since 1970, much of the progress was made early in the decade. Indeed, the poverty rates among the elderly increased in both 1979 and 1980 before again falling slightly in 1981. In 1981, 15.3 percent of the elderly--about 3.9 million persons--had incomes below the poverty threshold--\$5,494 for an elderly couple, and \$4,359 for an elderly individual (see Table 6). Whether these poverty rates will remain constant, begin to decline again, or increase further is unknown, but even if the rate declined by one-fifth (to a rate of 12.3 percent for all persons 65 and over) by 1990, the absolute number of elderly persons living below the poverty line would be no lower than in 1981.

Although some sources of income will increase in real terms, such as newly awarded Social Security benefits, the number of poor among the elderly population may well increase as the share of women, the very old, and persons living alone rises. These groups currently exhibit the highest incidence of poverty, and persons with two or more of these characteristics

are particularly likely to be poor (see Table 6). For example, almost two-thirds of all elderly black women who lived alone in 1980 were in poverty--four times the rate for all elderly persons. This figure is only slightly lower than the corresponding figure of 68.1 percent in 1974. Moreover, even if the proportion of poor individuals in each category declines, increases in the number of older, single, nonwhite women among the elderly will probably translate into continued high absolute numbers of poor. If the proportion of the age-80-and-above population that is poor remained relatively stable at about 20 percent, there would be about 1.5 million poor in that age group alone compared to 1 million now.

TABLE 6. SELECTED POVERTY RATES WITHIN THE ELDERLY POPULATION, 1981

Individual Characteristics	Percent in Poverty	Number of Persons (thousands)
Person Age 80 and Over	21.1	987
Black Person	36.5	890
Person Living Alone	29.4	2,268
Female	18.7	2,785
Female age 80 and over	25.0	777
Black female	43.5	547
Black female living alone	62.9	342

All Elderly Persons	15.3	3,853

SOURCE: Current Population Survey.

Factors that currently contribute to the large numbers of aged poor will continue to affect the elderly throughout this decade. Unmarried elderly women have low incomes primarily as a result of their histories of low labor force participation and high concentration in low-paying jobs, characteristics that will be shared by women reaching retirement age in the 1980s. These factors lead to limited retirement coverage and low benefits from Social Security and private pensions. Moreover, a large portion of poor elderly women are widows, many of whom experience dramatic income losses upon the death of their husbands. Widows often live alone, thus facing higher per-capita living expenses than those in larger family groups.

The old elderly exhibit a high incidence of poverty primarily because they are less likely to have incomes augmented by earnings and because the non-Social Security portions of their incomes are rarely indexed for rising prices. Moreover, measures of poverty understate the precarious financial position of the old elderly, since health expenses often consume a substantial share of their incomes and, over time, deplete their resources.

In recent years, rising health care costs have meant that an increasing share of resources of the elderly must be devoted to such expenditures despite almost universal enrollment in Medicare. The average expenditure by elderly individuals for noninstitutional health care is expected to be over \$1,000 in 1984, and this amount will be higher for those in poor health. Elderly couples with incomes below \$10,000 therefore often devote more than one-fifth of their incomes to health expenditures.

The demographic groups among the elderly most likely to be poor and to have large health-care costs are often also those with a greater likelihood of seeking home-based services. For example, the very old are likely to be frail, and those living alone cannot depend on a spouse or other relative in the household to provide care.

Geographic Concentration of Dependent Individuals

Immigration and internal migration may lead to a continued or increased concentration of dependent individuals in certain states and in certain types of communities. Moreover, in some cases, these concentrations may occur in jurisdictions that would find it difficult to fund services for those individuals.

Immigration Trends. In recent years, immigration has had a sizable impact on both the size and the characteristics of the national population. Alternative Census projections put estimated net immigration--that is, gross immigration, less temporary immigration and less out-migration of permanent residents--at between 450,000 and 750,000 per year over the decade of the 1980s, or between 19 and 29 percent of total population growth. These recent immigrants tend to be younger than the population as a whole--accordingly, many have young children--and they tend to have lower incomes than native-born Americans.

In recent years, immigrants have tended to concentrate in a small number of states and, in some cases, in specific jurisdictions within those states. For example, of the 4.5 million permanent aliens in 1980, over 70

percent resided in six states--California, New York, Texas, Florida, Illinois, and New Jersey--which contain less than 40 percent of the total national population.

Internal Migration. Several aspects of internal migration might also lead to increased concentrations of either dependent young children or dependent old-elderly individuals in certain jurisdictions.

--Concentration of dependent young children. If the pattern of recent years continues, the decade of the 1980s will see only modest changes in the distribution of poor children under age six between central cities, non-central parts of metropolitan areas, and nonmetropolitan areas. Between 1971 and 1981, for example, the proportion of very young poor children living in nonmetropolitan areas declined somewhat (from about 40 to 36 percent), while the proportion living in metropolitan areas increased correspondingly (from 60 to 64 percent). Most of this shift reflected an increase in the proportion of very young poor children living in non-central parts of metropolitan areas (from 23 to 26 percent), rather than in central cities.

For some purposes, however, it is less important to know where the largest number of very young poor children live than to know where the poverty rate among very young children is highest--that is, where those in poverty constitute the greatest share of the total population of very young children. For example, communities in which the poverty rate is highest

may be hardest pressed to provide services to poor children, because of the larger proportion of children needing services and the correspondingly higher proportion of families contributing little to local revenues because of their low incomes.

Between 1971 and 1981, the poverty rate among children under age 6 grew more rapidly in metropolitan areas than elsewhere in the nation. In central cities, the poverty rate increased from 21 to 30 percent, while in non-central parts of metropolitan areas, it rose slightly faster but from a lower initial level--increasing from 10 percent in 1971 to 15 percent in 1981. In contrast, the poverty rate in nonmetropolitan areas increased at a slower rate--rising from 22 to 24 percent--during the same period.

--Concentration of the elderly. Recent migration patterns show that while the elderly are only about a fourth as likely to move as the non-elderly, they too have been relocating to the Sun Belt and the suburbs. Thus, states such as Florida, Arizona, and New Mexico have experienced substantial growth in their elderly populations--although of these states, only Florida has a concentration of the elderly much above the national average. On the other hand, since the elderly are less likely to move, they are also concentrated in areas that substantial numbers of young families have left, such as the farm states of the Midwest and the old industrial states of the Northeast. In addition to this interstate migration, there has also been a slight increase in the proportion of the elderly living outside of central cities.

Changes in the Supply of Dependent-Care Services

Changes in the supply of various types of dependent-care services, in the absence of further federal intervention, will affect both the accessibility and the price of those services. If demand increases to a greater degree than any change in supply, the price of private care can be expected to rise. Families will adjust to higher prices in different ways. Those whose incomes increased even more would effectively have the same or more options as now, while those whose incomes rose more slowly might shift to lower-quality care.^{14/} Changes in the supply of dependent-care services are difficult to project, however.

Both child care and home-based care are labor-intensive industries drawing heavily on low-paid workers--usually women. Changes in the supply of such workers will therefore be the most important factor for determining changes in the supply of services.

Factors that would be expected to shift the supply upward are the expanding female labor force, and the increasing population of elderly women for whom employment as caretakers may be an appealing option. For child care, some young mothers may also be able to combine remaining at home with employment as informal day-care suppliers. On the other hand, if other job opportunities became increasingly available to women, some women would be expected to move out of marginal employment as

14. State and local government support is unlikely to contribute to an increased supply of dependent-care services, since many state and local governments are facing severe fiscal constraints.

dependent-care providers, particularly to the extent that alternative jobs paid higher wages. Declining overall unemployment rates could be one factor leading to such an increase in alternative job opportunities for women and to a corresponding decline in the supply of workers in the area of dependent care. If home-based social services were marketed in combination with home health services, more skilled--and better compensated--workers might be employed. Such a movement might make employment in care for the elderly more attractive, thereby enticing more job applicants, but also increasing the cost of services.

Uncertainty in Projecting Reliance on Federally Supported Services

Several factors bearing on federal support for non-family dependent-care services are difficult to predict.

Unexpected changes in fertility rates, for example, could substantially alter the projected number of young children--or the proportion in various income brackets. In addition, patterns of family composition--such as the divorce rate among parents of young children--could differ from those projected. Similarly, unanticipated changes in mortality rates could alter the projected number of dependent elderly individuals. Unanticipated medical advances could decrease the proportion of old elderly individuals with functional limitations; conversely, if access to medical services was sharply curtailed, the number of elderly with functional limitations might increase.

Economic circumstances that are difficult to forecast could also affect the future importance of federal support for dependent-care services. For example, little is known about the future income distribution of young children or the elderly, apart from projections of the proportion living in poverty. Moreover, changes in the unemployment rate, in the type of workers most often unemployed, in the regional distribution of unemployment and income (for example, through continued declines in "smokestack" industries in the Northeast and Midwest), and in the relative wages of male and female workers could all affect the extent to which families will seek federally and other publicly supported services.

PART II. ISSUES IN DETERMINING THE FEDERAL ROLE

In considering any potential federal response to the changing economic and demographic circumstances of children and the elderly, a number of overall issues arise. After a brief description of current federal programs, this section discusses three sets of issues:

- o Whether to change the federal role;
- o Tradeoffs between direct-expenditure and tax-expenditure approaches to dependent care; and
- o Alternatives for structuring new services.

THE EXISTING FEDERAL ROLE

Federal support for dependent care and other social services is currently provided through a variety of means, including both direct expenditures and tax expenditures. These services are provided for children, the elderly, and other groups such as the mentally and physically disabled.

The largest direct social-service expenditure program is the Human Services Block Grant (HSBG)--formerly Title XX of the Social Security Act. The HSBG program provides funds to states to finance assistance for child care, foster care, housekeeping, social activities, transportation, and other social services. The combination of services delivered is at the discretion of the states. In addition, the Head Start program offers educational, medical, nutritional, and social services to preschool children, primarily serving those from low-income families. For the elderly, the Older Americans Act serves as an important source of home-delivered and congregate meals and other

social services, and the Medicare and Medicaid programs cover some home-health services that may have social-service components. Social services are also funded through a variety of mostly smaller direct-expenditure programs.

The dependent care tax credit provides a tax credit equal to a specific portion of employment-related dependent-care expenses.^{1/} For purposes of the credit, eligible expenses are those paid for the care of dependent children under the age of 15 and of other dependents if physically or mentally incapacitated. Expenses eligible for the credit cannot exceed \$2,400 for one dependent or \$4,800 for two or more dependents. The credit is intended to provide greater assistance to families with low or moderate incomes; the credit equals 30 percent of eligible expenses for families with adjusted gross incomes (AGIs) of \$10,000 or less, declines to 20 percent as AGI rises to \$28,000, and remains at 20 percent at higher incomes.

The federal government also subsidizes social services indirectly through means-tested income transfer programs--most importantly, through the allowance for day-care expenses in the Aid to Families with Dependent Children (AFDC) program. Under this provision, AFDC recipients with earnings are permitted to deduct child-care expenses up to \$160 per month per child from their gross earnings for purposes of determining their benefit amount. This deduction lessens the reduction in benefits that the recipients'

1. The restriction of the credit to "employment-related" expenses limits it to single employed taxpayers and married employed taxpayers with an employed spouse.

earnings would otherwise cause, thus providing a partial subsidy of day-care expenses. The total subsidy of day care provided through this mechanism, however, is substantially smaller than that provided by the dependent-care tax credit or by the larger direct-expenditure programs.

DECIDING WHETHER TO CHANGE THE FEDERAL ROLE

Increased public support for dependent-care services may be sought if high poverty rates in the growing populations of young children and dependent elderly individuals continue, particularly if prices for privately provided dependent care increase. Such support could in theory be provided by subnational governments, but many jurisdictions will face difficult fiscal conditions and disproportionate concentrations of dependent individuals.

This potential increase in demand for federally funded social services arises in a period of considerable budget stringency, however. Financing an increase in the federal role would require either increases in taxes, reductions in other federal programs, or higher federal deficits. (This analysis has thus far focused on sources of increased demands for social services; similarly, an analysis of possible revenue increases or program reductions could focus on identifying direct expenditures or tax expenditures that serve groups that are shrinking in size or whose inflation-adjusted incomes are rising. Such a discussion is, however, beyond the scope of this paper.)

On the other hand, if the federal role in the provision of dependent-care services did not keep pace with the increase in demand, the result would likely be consumption of fewer or lower-quality services by those with low and moderate incomes. In the case of child-care services, changes might include a shift to more informal care, lower quality and quantity of supervision in care, and in some instances, leaving children with no supervision. Although not all the implications are known, it is likely that such children would suffer in terms of their physical, emotional, and educational needs. For the dependent elderly, also, the issues center on their quality of life. For those receiving no services, but remaining at home, daily needs such as diet and personal hygiene might suffer. In other instances, lack of services might hasten institutionalization--lowering some aspects of their quality of life and, in some cases, increasing costs to the federal government through Medicaid.

CHOOSING BETWEEN DIRECT EXPENDITURES AND TAX EXPENDITURES FOR DEPENDENT CARE

Should the Congress choose to increase or redirect aid, it must decide whether to direct it through spending programs or through the tax system. Several tradeoffs would arise in choosing between direct expenditures and tax expenditures, including:

- o The extent to which they can be used to target benefits to low-income groups; and
- o Flexibility in the type of services they can support.

In essence, direct programs are better able to assist those with low incomes, whereas tax expenditures can subsidize a broader range of services and minimize the extent of government intervention.

Targeting benefits toward low-income families is likely to be more practical with direct expenditures than with tax expenditures, largely because of the structure of the personal income tax. According to the most recent estimates, only about 7 percent of the 4.6 million families using the dependent-care tax credit had incomes below \$10,000 in 1981, for example, and less than 6 percent of the estimated \$1.3 billion in tax credits went to these families. The major reason is that the dependent-care tax credit is not refundable--that is, it cannot exceed the amount of the family's tax liability--and most families with incomes below \$10,000 pay little or no income tax.

Although more low-income families would benefit under a refundable credit, many still would not. Because most low-income families do not pay taxes, they are not easily reached through the tax system. This has been the experience of the one refundable tax credit that now exists--the earned income tax credit (EITC) for working parents with dependent children. Many do not know about the credit, do not understand how to use it, or are reluctant to deal with the Internal Revenue Service. The forms needed to use the credit can be confusing, and people who would not otherwise have to file a tax return (since they owe no tax and are due no refund) must do so to obtain the credit. A further possible problem in using the income tax system to assist low-income families is that a family does not receive the credit until tax returns are filed at the end of the year, creating a considerable hardship in some cases. In theory, an advance-payment provision might ameliorate this problem, but in practice such a change would likely have

little effect. The EITC does have a provision for advance payments from employers, for example, but very few EITC recipients --about 0.4 percent-- use this feature.

In contrast, direct-expenditure programs can be designed to serve only--or primarily--low-income families, particularly if such targeting is mandated at the federal level. In practice, however, direct-expenditure programs need not be targeted; for example, recent changes in the statute removed federal targeting requirements from the Human Services Block Grant, providing states the option of directing services toward middle- and upper-income individuals as well.

Tax expenditures have the advantage of flexibility. Tax credits or deductions may be used to subsidize a broad range of privately purchased care, while direct provision increases the role of government and limits individual choice. Moreover, favorable tax treatment may encourage relatives to contribute to the care of the dependent elderly relying on publicly provided services.

STRUCTURING FEDERAL PROGRAMS FOR DEPENDENT CARE

If additional federal efforts are undertaken to provide dependent-care assistance--either through existing or new direct-expenditure programs or through various tax expenditures--the Congress will face a number of difficult decisions about how to structure that aid to maximize its effectiveness.

Child Care. In providing support for child care, one central issue is the extent to which aid would be targeted by income. Given likely funding limitations and the rapid growth in the number of very young children in poor households, the extent of income-based targeting would be a critical factor in determining the proportion of very-low-income children receiving supported services. A second issue is how to provide the wide variety of types of care that will be in increased demand over the rest of the decade, ranging from highly labor-intensive--and correspondingly expensive--infant care to after-school care for elementary-school students. The Congress might decide to channel a certain proportion of any funding provided into each of these types of care, or it might leave that decision to an executive agency, to states, or to localities. Third, and perhaps most critical, since any increase in federal funding for child-care services is unlikely to keep pace with the expected rapid increase in demand described above, a federal initiative would have a greater impact the more it was able to focus some funds on lower-cost forms of care and to stimulate private alternatives.

Dependent Care for the Elderly. The issues that arise because of the rapid increase in the dependent elderly population are quite different. Unlike very young children, the dependent elderly cannot be identified on the basis of any simple criterion such as age. Moreover, the current definitions of dependency and need for care among the elderly are somewhat unreliable, because they are generally based on self-reported information. Accordingly, a federal initiative would need to specify how support would be limited to those who were truly dependent in order to avoid a rapid

escalation of costs (in an entitlement program) or a misallocation of limited funds (in an appropriated program). Moreover, a sizable proportion of the old elderly live alone, while others maintain their own households near another relative and still others live with relatives or other individuals. The needs of these three groups are different. Finally, federal support of dependent-care services for them might inadvertently create undesired incentives for the elderly to alter their living arrangements to substitute publicly funded care for care by relatives.

PART III. OPTIONS

In light of the demographic and economic trends outlined in this analysis, the Congress may wish to consider options for the provision of social services to young children and the moderately-disabled elderly. Options for each of these two groups are discussed separately in this section.

CHILD-CARE OPTIONS

Numerous options are available to the Congress should it decide to alter the federal role in supporting dependent-care services for young children, including:

- o Improving the cost-effectiveness of existing programs;
- o Targeting available resources more narrowly on those populations least able to purchase care themselves;
- o Expanding federal support;
- o Encouraging employer participation in the provision of child care; and
- o Encouraging employment changes that might lessen dependence on nonfamily care.

Improving Cost-Effectiveness

In a time of fiscal stringency, federal expenditures could be kept at the same level but directed in a more efficient fashion. For example, the Human Services Block Grant (HSBG) could be modified to direct these funds toward less expensive forms of care than the center-based arrangements